



# GENERAL ASSEMBLY

## COMMONWEALTH OF KENTUCKY

### 2011 REGULAR SESSION

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HOUSE BILL NO. 416

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FRIDAY, FEBRUARY 18, 2011

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The following bill was reported to the Senate from the House and ordered to be printed.

RECEIVED AND FILED  
DATE March 15, 2011  
3:00 pm.  
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ELAINE N. WALKER  
SECRETARY OF STATE  
COMMONWEALTH OF KENTUCKY  
BY P. Kisselring

1 AN ACT relating to accountancy.

2 ***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

3 ➔ Section 1. KRS 325.220 is amended to read as follows:

4 As used in this chapter, unless the context otherwise requires:

- 5 (1) "Board" means the State Board of Accountancy;
- 6 (2) "State" includes and means any state, territory, or insular possession of the United  
7 States, or the District of Columbia;
- 8 (3) "Public accountant" means a public accountant issued a license to practice by the  
9 Commonwealth of Kentucky under the Public Accounting Act of 1946 as amended;
- 10 (4) "Attest service" means providing the following financial statement services:
  - 11 (a) Any audit or other engagement subject to and to be performed in accordance  
12 with the current versions of the American Institute of Certified Public  
13 Accountants (AICPA) Statements on Auditing Standards (SAS), and  
14 Government Auditing Standards issued by the United States Government  
15 Accountability Office;
  - 16 (b) Any review or compilation of a financial statement subject to and to be  
17 performed in accordance with the current versions of the American Institute  
18 of Certified Public Accountants (AICPA) Statements on Standards for  
19 Accounting and Review Services (SSARS);
  - 20 (c) Any examination of prospective financial information or other professional  
21 services to be performed in accordance with the current versions of the  
22 American Institute of Certified Public Accountants (AICPA) Statements on  
23 Standards for Attestation Engagements (SSAE); or
  - 24 (d) Any engagement to be performed in accordance with the Public Company  
25 Accounting Oversight Board Auditing Standards;
- 26 (5) ~~["Compilation" means providing a service to be performed in accordance with the~~  
27 ~~Statements on Standards for Accounting and Review Services (SSARS) by~~

1 ~~presenting information in the form of financial statements that is the representation~~  
 2 ~~of management or owners of an entity without undertaking to express any assurance~~  
 3 ~~on the statements;~~

4 (6) — "Regulated activities" means the offering to perform or the performance for a client  
 5 or potential client by a person or firm holding a license issued under this chapter of  
 6 one (1) or more types of services involving the use of accounting, attest, or  
 7 compilation services, including the issuance of reports on financial statements, or  
 8 one (1) or more types of management advisory, financial advisory, or consulting  
 9 services, or the preparation of tax returns or the furnishing of advice on tax matters.

10 This definition shall not prohibit anyone who is not a certified public accountant  
 11 from performing accounting services, such as the preparation of tax returns or  
 12 financial statements, for which attestation by the preparer is not required;

13 ~~(6)~~(7) "Firm" means a sole proprietorship, partnership, professional service  
 14 corporation, or any other form of business organization that is authorized to operate  
 15 under the laws of this Commonwealth, complies with the provisions of this chapter,  
 16 and is issued a license to practice by the board or is exempt from having to obtain a  
 17 license pursuant to KRS 325.301;

18 (7) "Firm manager" means a licensee of this state or another state designated by a  
 19 firm to be responsible for the firm complying with the firm registration and firm  
 20 licensing requirements contained in this chapter and administrative regulations  
 21 promulgated thereunder;

22 (8) "License" means a license as a certified public accountant or a firm issued pursuant  
 23 to this chapter;

24 (9) "Licensee" means a certified public accountant, firm, or public accountant, holding  
 25 a license to practice issued under this chapter;

26 (10) "Peer review" means a practice monitoring process designed to promote quality in  
 27 accounting and auditing services, and protect the public interest. The process

shall comply with standards that are equivalent to or more stringent than the current version of the Standards for Performing and Reporting on Peer Reviews issued by the American Institute of Certified Public Accountants (AICPA)~~[study, appraisal, or review of one (1) or more aspects of the professional work of a person or firm licensed to practice, or excluded from having to obtain a license pursuant to KRS 325.301, and may include a quality assurance or peer review, or any internal review or inspection that is required by professional standards relating to quality control policies and procedures];~~

(11) "**Peer** review committee" means any person or persons~~[carrying out, administering[, or overseeing]~~ a peer review program **that is equivalent to or more stringent than a program as outlined in the American Institute of Certified Public Accountants (AICPA)'s current version of the Standards for Performing and Reporting on Peer Reviews, including provisions that provide guidance for administering peer reviews;** and

(12) "Substantial equivalency" means a determination by the board or its designee that the education, examination, and experience requirements in the statutes and administrative regulations of another state for the licensing of a certified public accountant are comparable or better than those contained in the Uniform Accountancy Act issued by the American Institute of Certified Public Accountants (AICPA) and National Association of State Boards of Accountancy (NASBA), or that an individual certified public accountant's education, examination, and experience qualifications are comparable or exceed these national standards.

➔ Section 2. KRS 325.301 is amended to read as follows:

(1) The following firms shall obtain a license to practice in this state:

(a) Any firm with an office located in this state performing attest services~~[or compilations]~~, as defined in KRS 325.220;

(b) Any firm with an office in this state that uses the title "CPA" or other phrase

1 or abbreviation in any manner described in KRS 325.410 to suggest it is a  
2 certified public accounting firm; and

3 (c) Any firm that does not have an office located in this state but performs any  
4 attest service described in KRS 325.220(4)(a), (c), or (d) for a client with his  
5 or her home office in this state or a client who is a resident of this state.

6 (2) The following firms shall not be required to obtain a license to practice in this state  
7 and may use the title "CPA" in the name of the firm:

8 (a) A firm which does not have an office in this state that performs services  
9 described in KRS 325.220(4)(b)~~[(5)]~~ for a client having its home office in  
10 this state or a client who is a resident of this state if:

11 1. The firm complies with the requirements contained in subsections (3)(a)  
12 and 12~~[(8)]~~ of this section; and

13 2. All services provided by the firm are performed by an individual with a  
14 practice privilege granted under KRS 325.282; and

15 (b) A firm which does not have an office in this state and does not provide  
16 attest~~[(the)]~~ services, as defined~~[(described)]~~ in KRS 325.220~~[(4) or (5)]~~ to a  
17 client having his or her home office located in this state or a client who is a  
18 resident of this state may provide other services that are regulated activities, as  
19 defined~~[(described)]~~ in KRS 325.220~~[(6)]~~, if:

20 1. The services are provided through an individual granted a practice  
21 privilege as described in KRS 325.282; and

22 2. The firm can legally provide the services in the state where the  
23 individual with a practice privilege has his or her principal place of  
24 business.

25 (3) All firms seeking to obtain a license to practice in this Commonwealth shall meet  
26 the following requirements:

27 (a) Certified public accountants shall hold fifty-one percent (51%) or more of the

1 ownership of the firm in terms of financial interests and voting rights of all  
2 partners, officers, shareholders, members, or managers of the firm;

3 (b) All owners of the firm who are not certified public accountants shall be  
4 natural persons actively engaged in the firm's operations and shall satisfy  
5 additional requirements established~~[as promulgated]~~ by the board through  
6 promulgation of an~~[in]~~ administrative regulation~~[regulations]~~;

7 (c) The name of the firm shall comply with the requirements of KRS 325.380;

8 (d) All certified public accountants who are sole proprietors, partners,  
9 shareholders, members, officers, directors, or employees of a firm with an  
10 office located in this state, who regularly practice in this Commonwealth,  
11 shall maintain current licenses to practice issued by the board;

12 (e) Any individual licensee and any individual qualifying for a practice privilege  
13 under this chapter who is responsible for supervising attest services and signs  
14 or authorizes someone to sign the report on the financial statements on behalf  
15 of the firm shall meet the competency requirements established~~[as~~  
16 ~~promulgated]~~ by the board through promulgation of an~~[in]~~ administrative  
17 regulation; and

18 (f) The firm shall comply with the provisions of this chapter, the administrative  
19 regulations promulgated by the board, and all other laws of this  
20 Commonwealth applicable to the firm's particular form of business  
21 organization.

22 (4) Before a firm may practice in this Commonwealth, the firm manager~~[it]~~ shall:

23 (a) Submit an initial application which contains~~[to the board for a firm license to~~  
24 ~~practice in this Commonwealth. This application shall be made upon forms~~  
25 ~~approved by the board and signed by the firm manager, who shall also be the~~  
26 ~~certified public accountant in charge of the administrative matters of the firm.~~  
27 ~~The application for a firm license to practice shall include the name of the~~

1 ~~firm manager, the name of each certified public accountant and nonlicensee~~  
 2 ~~with an ownership interest in the firm, the name of each certified public~~  
 3 ~~accountant employee of the firm, the location of each office, and any other]~~  
 4 information required by[as] the board[, through promulgation of an[by duly  
 5 promulgated] administrative regulation[, may require]; and

6 (b) ~~[With the exception of a sole proprietorship, ]~~Pay a fee not to exceed two  
 7 hundred dollars (\$200) established[set] by an administrative regulation  
 8 promulgated by the board.

9 (5) The firm license~~[to practice]~~ shall be renewed every two (2) years by the firm  
 10 manager[:].

11 (a) Completing the renewal process according to the procedures as[The  
 12 application for renewal shall be submitted by the manager of the firm on  
 13 forms] established in administrative regulation[regulations] promulgated by  
 14 the board; and[:].

15 (b) Paying the[The] renewal fee, which shall not [to] exceed two hundred dollars  
 16 (\$200), as[shall be] established by administrative regulation promulgated by  
 17 the board.

18 (6) A firm license due to expire on July 1, 2011, shall:

19 (a) Be renewed by the firm manager according to the procedures established by  
 20 the board through promulgation of an administrative regulation;

21 (b) Require payment of a fee not to exceed fifty dollars (\$50) established by the  
 22 board through promulgation of an administrative regulation; and

23 (c) Expire on August 1, 2012.

24 (7) A firm license that expires on or after August 1, 2012, shall:

25 (a) Be renewed by the firm manager prior to August 1, 2012;

26 (b) Require payment of a fee not to exceed two hundred dollars (\$200)  
 27 established by the board through promulgation of an administrative

regulation;

(c) Be effective for two (2) years; and

(d) Be renewed by the firm manager on or before August 1 of each two (2) year period thereafter according to the procedures contained in this subsection and as established by the board through promulgation of an administrative regulation.

(8) If a firm license has been expired for a period of less than one (1) month and the firm has not violated any other provision of this chapter or the accompanying administrative regulations promulgated thereunder, the firm manager may renew the license by:

(a) Satisfying all the requirements of this subsection, including any requirements established by the board through promulgation of an administrative regulation; and

(b) In addition to the renewal fee, pay a late fee not to exceed one hundred dollars (\$100).

(9) A firm with a license expired for a period of longer than one (1) month after the date of expiration shall cease operating immediately. The firm shall not operate until the board approves the issuance of a new license to the firm.

(10) Effective August 1, 2012, sole proprietors shall comply with the licensing requirements for firms under this section. ~~[The firm license to practice shall be effective for a two (2) year period following the date of its issuance and shall expire on the first day of July in the year of expiration.]~~

~~(11)~~~~(7)~~ The firm manager~~[of the firm]~~ shall notify the board in accordance with procedures~~[, on a form]~~ established in an administrative regulation~~[regulations]~~ promulgated by the board, of any change in its licensing information within thirty (30) days. Any change in the name of a firm shall require the filing of an initial application.



1 ~~(12)~~~~(8)~~ All firms that perform audits, reviews, or compilations shall enroll in and  
 2 complete on a regular basis an approved peer review program with standards that  
 3 are equivalent to or better than the peer review program administered by the  
 4 American Institute of Certified Public Accountants as determined by administrative  
 5 regulations promulgated by the board. Every firm shall comply with any  
 6 requirements or restrictions placed on its license as prescribed by the board in  
 7 response to the results of peer reviews.

8 ~~(13)~~~~(9)~~ Nothing contained in this chapter shall require a certified public accountant or  
 9 firm of certified public accountants licensed by another state ~~or foreign country~~ to  
 10 obtain a license to practice in this Commonwealth if the certified public accountant  
 11 or firm of certified public accountants enters~~enter~~ this Commonwealth solely to:

- 12 (a) Conduct a peer review of a firm; or
- 13 (b) Perform attestation work, incidental to an engagement which was initiated  
 14 with a client located outside of the Commonwealth and has extended into the  
 15 Commonwealth due to common ownership or existence of a subsidiary,  
 16 assets, or other operations located within the Commonwealth.

17 ➔Section 3. KRS 325.431 is amended to read as follows:

18 (1) The proceedings, records, and workpapers of the peer review committee shall be  
 19 privileged and not subject to discovery, subpoena, or other means of legal process,  
 20 or introduction into evidence in any civil action, arbitration, administrative  
 21 proceeding, or state accountancy board proceeding. No member of the peer review  
 22 committee or person involved in the quality review process shall testify in any civil  
 23 action, arbitration, administrative proceeding, or state accountancy board  
 24 proceeding as to any matter produced, presented, disclosed, or discussed during or  
 25 in connection with the quality review process, or as to any finding,  
 26 recommendation, evaluation, opinion, or other action of the committee.

27 (2) Information, documents, or records that are publicly available shall not be immune

1 from discovery or use in any civil action, arbitration, administrative proceeding, or  
2 state accountancy board proceeding merely because they were presented or  
3 considered in connection with the quality review process.

4 (3) The privilege created in subsection (1) of this section shall not apply to:

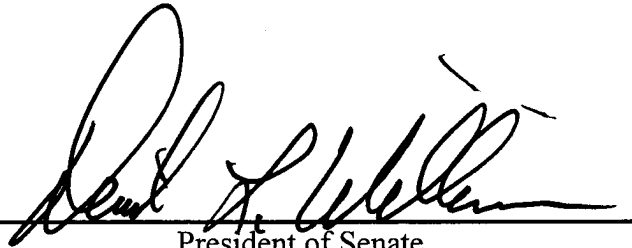
5 (a) Materials prepared in connection with a particular engagement merely because  
6 they happen to subsequently be presented or considered as part of the quality  
7 of review process.

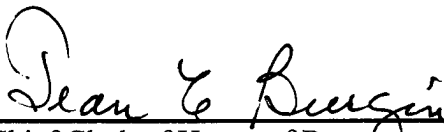
8 (b) Disputes between peer review committees and persons or firms subject to a  
9 quality review arising from the performance of the quality review.

10 (c) Correspondence and reports of the peer review program obtained by the board  
11 from a licensee seeking renewal or an individual or firm seeking to become  
12 licensed.

13 (d) A statement obtained by the board from a peer review committee to determine  
14 if a licensee seeking renewal or an individual or firm seeking to become  
15 licensed is enrolled in or is not enrolled in a peer review program.

  
\_\_\_\_\_  
Speaker-House of Representatives

  
\_\_\_\_\_  
President of Senate

Attest:   
\_\_\_\_\_  
Chief Clerk of House of Representatives

Approved   
\_\_\_\_\_  
Governor

Date March 15, 2011